

# **REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF INGWE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Ingwe municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 2 to 28.

### **Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2007 (Act No. 1 of 2007) (DORA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### **Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement

of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ingwe municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis of accounting**

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in accounting policy note 1.

### **Opinion**

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the Ingwe Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and DORA.

### **Emphasis of matter**

Without qualifying my audit opinion, I draw attention to the following matter:

### **Fruitless and wasteful expenditure**

11. As disclosed in note 20.6 to the financial statements, fruitless and wasteful expenditure to the amount of R143 483 were paid to civil engineering consultants for a project that was later abandoned.

## OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### Non-compliance with applicable legislation

#### Municipal Finance Management Act (MFMA)

12. The mayor did not submit a report to the council on the implementation of the budget and the financial state of the municipality as required by section 52(d) of the MFMA.
13. There is no budget preparation process in place as required by section 21(a) of the MFMA.
14. The Accounting Officer did not submit the budget statements of the state of the municipality's budget no later than 10 working days after the end of each month, to the mayor of the municipality, and the provincial treasury, as prescribed by section 71(1) to 71(5) of the MFMA.

#### Division of Revenue Act (DoRA)

15. The municipality did not prepare and submit a bi-monthly report for the transferring national officer in respect of programmes funded or partially funded by an allocation as required by section 11(5) of DORA.

### Matters of governance

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
<b>Audit Committee</b>		
• The municipality has an audit committee		✓
• The audit committee operates in accordance with written terms of reference.		✓
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		✓
<b>Internal audit</b>		
• The Municipality had an internal audit function in operation throughout the financial year.		✓

• The internal audit function operates in terms of an approved internal audit plan.		✓
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
<b>Other matters of governance</b>		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	✓	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		✓
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
• The prior year's external audit recommendations have been substantially implemented.	✓	
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
• The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.	✓	
• The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.	✓	
• The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.	✓	

#### Unaudited supplementary schedules

17. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget in accordance with GRAP1 *Presentation of Financial Statements*. The supplementary budget information set out in appendix E1 and E2 does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion on them.

18. The supplementary information set out in appendix A to D and F does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not give an opinion thereon.

## **OTHER REPORTING RESPONSIBILITIES**

### **REPORT ON PERFORMANCE INFORMATION**

19. I was engaged to review the performance information.

#### **Responsibility of the accounting officer for the performance information**

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### **Responsibility of the Auditor-General**

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
22. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

#### **Audit findings (performance information)**

##### **Non-compliance with regulatory requirements**

23. The accounting officer and managers directly reporting to the accounting officer have not signed annual performance agreements as required by section 57(1) of the MSA.
24. There was no remuneration attached to the posts as required by section 66 (c) of the MSA.
25. The municipality did not adopt a performance management system as required by Section 8 of GNR.796 of 24 August 2001: Local Government: Municipal Planning and Performance Management Regulations and section 41 of the MSA.
26. The IDP does not include a financial plan, which must include a budget projection for at least the next three year as required by section 26 (h) of the MSA.

27. The municipality did not submit an annual performance report for the year ended 30 June 2008 as required by section 46 of the MSA and could therefore not be audited at date of my report.

## **APPRECIATION**

28. The assistance rendered by the staff of the Ingwe Municipality during the audit is sincerely appreciated.

Pietermaritzburg

28 November 2008



A U D I T O R - G E N E R A L